2009 ANNUAL REPORT

Ontario Financing Authority

Ontario

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Mandate

The Ontario Financing Authority (OFA) was established by the *Capital Investment Plan Act, 1993* (CIPA), and performs the following activities:

- conducts borrowing, investment, and financial risk management for the Province of Ontario
- manages the Provincial debt
- provides financial and centralized cash management services for the government
- advises ministries, Crown agencies and other public bodies on financial policies and projects
- assists Crown agencies and other public bodies in borrowing and investing
- acts as an intermediary for the Province in lending to certain public bodies and invests on behalf of some public bodies.

The OFA also provides a broad range of financial services to the Ontario Electricity Financial Corporation (OEFC) and Infrastructure Ontario (Ontario Infrastructure Projects Corporation).

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Statement from the Chair and the Chief Executive Officer

Despite challenging market conditions, we are pleased to report that 2008–09 was another successful year for the Ontario Financing Authority.

We raised $28.7 billion on behalf of the Province of Ontario and the Ontario Electricity Financial Corporation (OEFC), completing the long-term borrowing requirement for the fiscal year. Total savings relative to the performance benchmarks for borrowing, money market and debt management activities were $201 million.

The OFA supported the government's priorities by providing financial advice and services to a number of public sector organizations. The OFA continued the review of business cases for borrowing requests from public bodies, such as colleges, school boards, and corporations. This resulted in 85 loans to public bodies totalling $1.1 billion. We also provided financial advice on government initiatives related to the electricity sector, such as environmental and climate change initiatives in the *Green Energy and Green Economy Act, 2009*, and a loan guarantee program to facilitate Aboriginal participation in energy projects. As well, the OFA supported and advised new Crown agencies on banking arrangements and provided advice on banking services and cash management for government initiatives.

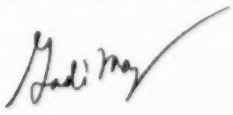
Looking to 2009–10, the OFA will continue to provide cost-effective borrowing, financial and debt management services. The long-term borrowing requirement is forecast at $39.2 billion. In 2009–10, the OFA plans to complete 35 to 50 per cent of the Province's borrowing program in the international markets. This diversification of the investor base will reduce the borrowing costs and attract new investors, particularly in the current environment where Ontario faces increased competition from other borrowers.

We will also continue to engage in public-sector financing initiatives and provide advice and support on financial aspects of electricity sector developments.

We would like to take this opportunity to thank the OFA staff for their hard work, and the members of the Board of Directors for their advice and oversight during the fiscal year. We look forward to working with both staff and the Board in 2009–10.

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer



Management's Discussion and Analysis

Capital Markets Activities

Borrowing and Debt Management

Financial Reporting

Cash Management and Banking Services

Financial Advice

Management's Discussion and Analysis

This section details Management's discussion and analysis of the OFA's results in 2008–09 and its objectives for 2009–10 as of June 2009.

Capital Markets Activities

Borrowing Program

The interim long-term borrowing for 2008–09 is $28.7 billion, compared to $24.3 billion in the 2008 Budget. The difference is primarily due to the projected deficit.

Bond markets were volatile during parts of 2008–09. However, the Province continued to have relatively steady access to the domestic bond market due to investor confidence in Ontario and the liquidity provided by its benchmark bond issues.

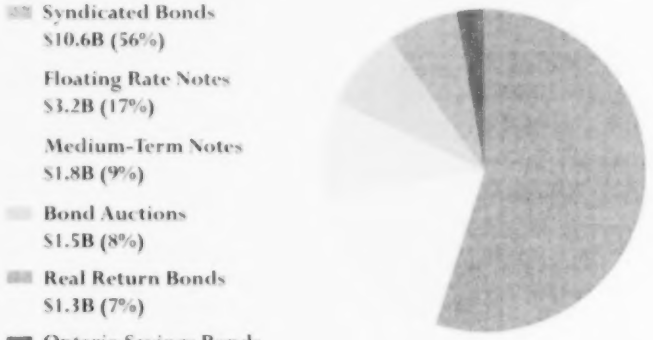
The OFA maintained a flexible approach to borrowing, monitoring both domestic and international capital markets to minimize debt service costs and diversify the borrowing program.

About 66 per cent or $18.9 billion of the Province's borrowing program was completed in the domestic market, with the remaining 34 per cent raised from international markets.

Borrowing – All Markets

Total: $28.7 billion

Borrowing – Domestic Market



Total: $18.9 billion

Investments

The OFA manages the Province's liquid reserve portfolio to optimize investment returns and to ensure that sufficient funds are available to meet cash requirements. The average level of liquid reserves in 2008–09 was $8.3 billion.

The Province received $636.8 million in restructured notes due to its holdings of third-party Asset Backed Commercial Paper (ABCP). The Province plans to hold the notes to maturity. By holding the notes to maturity, it is expected that the Province will recover most of the accounting writedown taken last year. While no significant further writedown is expected, the Province — with the assistance of external accounting advisers — will review the accounting treatment of third-party ABCP for the Public Accounts of Ontario in the fall of 2009.

The OFA also invests on behalf of certain public bodies to help increase their returns by improving investment processes and reducing investment costs. In 2008–09, the OFA provided investment services to a number of agencies, boards, commissions and other public bodies, including Infrastructure Ontario, the Pension Benefits Guarantee Fund, Ontario Trillium Foundation and the Deposit Insurance Corporation of Ontario. Total funds managed were $2.5 billion.

With Ontario Power Generation Inc. (OPG), the OFA continued to manage the investment activities of the Used Fuel Segregated Fund and the Decommissioning Segregated Fund, established under the Ontario Nuclear Funds Agreement (ONFA). As at March 31, 2009, the combined market value of the funds was $9.1 billion, compared to a market value of $4.9 billion when the funds were formally established in 2003.

There are currently 18 external investment managers retained to invest the funds in both bonds and equities. For the 12 months ended March 31, 2009, the funds' rate of return was negative 14.4 per cent compared to the market benchmark of negative 17.4 per cent. Since inception, the funds have returned 4.01 per cent annualized, versus the long-term target annualized rate of return of 3.25 per cent plus the rate of change in the Ontario Consumer Price Index.

Capital Markets Objectives for 2009–10

The total long-term borrowing requirement for 2009–10 is forecast at $39.2 billion, primarily because of the deficit, debt maturities and capital investments.

The Canadian dollar domestic market will again be the Province's main funding source. The OFA will continue to diversify the domestic borrowing program using a combination of syndicated issues, bond auctions, floating-rate notes, medium-term notes and the fifteenth Ontario Savings Bond campaign. In addition, it is expected that approximately 35 to 50 per cent of the program will be sourced internationally. Investor relations will be a priority, with road shows planned for the Gulf Region, Europe, Asia, Canada and the United States.

The OFA will also manage the Province's liquid reserves conservatively, with a rate of return consistent with its investment objectives. With Ontario Power Generation, the OFA will continue to administer the nuclear funds investments in line with nuclear fund agreement objectives so that the Province's contingent liabilities under this agreement are prudently managed. As well, the OFA will also invest on behalf of certain public bodies.

Borrowing and Debt Management

The OFA manages the total debt for the Province and the OEFC. Total debt was $177.3 billion on a consolidated basis, interim as at March 31, 2009. Net debt, the difference between the total liabilities and total financial assets, was $149.4 billion interim as at March 31, 2009.

Prudent risk management policies and practices mitigate the financial risks inherent in managing large debt and liquid reserve portfolios. A variety of financial instruments, such as swaps and options, are used to manage exposures to fluctuations in interest rates and foreign currency exchange rates. Risk exposures are monitored daily and audited annually.

Risk management policies are reviewed annually and amendments are approved by the OFA Board of Directors.

Total Debt Composition

$177.3 billion

Performance

The OFA monitors and measures the performance of the borrowing, debt management and liquid reserve programs. Interim total savings relative to the performance benchmarks were $201 million in 2008–09, compared to $40 million (excluding the effect of the asset-backed commercial paper writedown) in 2007–08.

The borrowing program's performance is measured by the difference between the all-in cost of the actual borrowing program and the all-in cost of hypothetical domestic borrowing of the same term and size, implemented evenly over the fiscal year (even-pace benchmark). The cost difference is compared to the performance of fixed income fund managers relative to a common bond market index.

For 2008–09, the cost of borrowing for the Province and OEFC was $194.1 million lower than the even-pace borrowing benchmark on a present value basis compared to $32.7 million in 2007–08. The relative performance based on the peer group ranking continued to be in the first quartile.

The debt management program's performance is evaluated based on a comparison of program savings with a risk-based performance target. In 2008–09, the debt management program incurred losses of $1.7 million, compared to $2.0 million of savings in 2007–08. The performance in relation to the performance target fell from second quartile in 2007–08 to third quartile in 2008–09.

The performance of liquid reserve investments is measured relative to the returns of a custom benchmark, with a term of 45 days. The performance difference is compared to the performance of a peer group of money market managers, relative to a common money market index. Money market performance was $9.4 million better than the target for 2008–09. The program returned 16 basis points more than the 45-day benchmark and translates to a fourth quartile performance relative to peers.

Market Risk

Market risk is the risk of loss due to changes in interest rates and foreign exchange. The OFA aims for a balanced debt maturity profile to mitigate the interest rate risk inherent in refinancing maturing debt and the floating-rate debt.

The interim percentage of interest rate resetting exposure (net of liquid reserves) was 11.6 per cent of debt as at March 31, 2009. The interim foreign exchange exposure was 0.2 per cent of debt as at March 31, 2009.

Debt maturities were $20.3 billion, while debt redemptions were $0.5 billion in 2008–09. In 2007–08, debt maturities were approximately $13.5 billion, while debt redemptions were $1.3 billion.

All exposures were well within the Province's approved policy limits during 2008–09.

Credit Risk

Credit risk is the risk of loss due to default of bond issuers or counterparties of derivatives or other financial transactions. The lowest acceptable credit rating of counterparties for Ontario is A–. However, Ontario typically enters into swap transactions with new counterparties rated AA– or higher.

The Province's interim total derivative portfolio as at March 31, 2009 had a notional value of $113.8 billion, which consisted of $73.7 billion in interest rate swaps, $32.4 billion in cross-currency swaps and $7.7 billion in forward foreign exchange contracts.

The Province's interim total derivative portfolio as at March 31, 2009 had a market value of negative $1.1 billion, meaning that in the event of default, Ontario would owe money to its counterparties. The total consists of negative $2.7 billion in interest rate swaps, $1.4 billion in cross-currency swaps and $0.2 billion in forward foreign exchange contracts.

As at March 31, 2009, almost 90 per cent of Ontario's credit exposure was to counterparties rated "AA minus" or better.

The OFA actively manages counterparty risk, but given the uncertainty in the credit markets in 2008, a number of additional measures were taken to limit exposure to counterparty risk. All ABCP and covered-bond counterparties remained suspended from the approved counterparty list. Counterparty credit strength and exposures continue to be closely monitored.

Liquidity Risk

Liquidity risk is the risk that liquid reserves will not be sufficient to meet the Province's cash requirements. This risk is controlled through the management of operational cash flows, liquid reserve levels and the short-term borrowing program.

The Province's Treasury Bill and U.S. Commercial Paper programs have authorized limits of $18.0 billion and $2.5 billion, respectively.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or external events. The OFA manages operational risks through divisional procedures and contingency plans as well as appropriate staffing and training, all of which are reviewed on an ongoing basis. The Business Continuity Plan (BCP) ensures that critical operations are completed in a timely manner in the event of a business disruption.

The reliability of information technology and computing systems is crucial to ensure that the OFA carries out its mandate efficiently and effectively. Systems were maintained at a high level during 2008–09.

Credit Rating Agency Relations

The Province requires ratings from recognized credit rating agencies to issue debt at favourable conditions in the capital markets. The OFA ensures credit rating agencies understand government policies and budget direction as well as economic and fiscal performance, and properly reflect these in their reports and decisions. Through the OFA, the government maintains a one-window contact with the agencies to ensure that information requests for government policies and other information is consistent and coordinated.

Following the release of the 2009 Budget, Moody's confirmed its Aa1 rating on April 30, 2009, DBRS confirmed the Province's AA rating on April 29, 2009 but revised the trend on the AA rating to Negative on June 2, 2009, and Standard and Poor's confirmed its AA rating but changed the outlook on the AA rating to Negative on June 2, 2009. The changes in the Province's outlook followed the Minister of Finance's announcement on June 1, 2009 that the deficit was estimated at $18.5 billion, up from $14.1 billion in the 2009 Budget.

Borrowing & Debt Management Objectives for 2009–10

Cost-effective and prudent debt management strategies will continue to be key objectives in 2009–10. The OFA will comply with risk management policies and portfolio program limits approved by the Boards of Directors of the OFA and the OEFC. Risk management policies will be reviewed and revised as required in response to an evolving regulatory and capital markets environment.

Financial Reporting

The OFA continued to be actively involved in discussions with the accounting community regarding developments that could have a future impact on the reporting of the Province's debt and interest on debt.

Financial Reporting Objectives for 2009–10

The OFA will continue to work with the office of the Provincial Controller and the broader accounting community to ensure that the Province's needs for transparency and accountability are appropriately reflected when any accounting changes are considered by the Public Sector Accounting Board (PSAB).

Cash Management and Banking Services

The OFA provides centralized cash management services that minimize interest on debt costs. It is also responsible for the provision of banking services to the government including the efficient management of banking relationships to ensure value for money.

In 2008–09, the OFA provided expert advice on banking services for government initiatives such as ServiceOntario's Enterprise Payment Project as well as the Ministry of Revenue's improvements for centralized revenue processing. The OFA successfully launched the first phase of a centralized electronic portal to manage the ongoing administration of debit/credit card acceptance services across the government. This portal converted a paper-intensive manual process into an efficient electronic "green" initiative with attendant cost savings.

The OFA developed and implemented a forecasting system for Employer Health Taxes based on the award-winning Retail Sales Tax cashflow forecasting system. It effectively managed the complex cash flows relating to the transition year for the transfer of the administration of corporate taxes to the Canada Revenue Agency, thereby minimizing the impact of volatile cash flows associated with an important revenue stream.

Cash Management & Banking Services Objectives for 2009–10

The OFA will tender and implement results of tenders for banking, debit/credit card acceptance services as well as custodial and treasury bill issuing services.

The OFA will also continue to identify and implement cost-effective ways to modernize service delivery and processing for ministries and agencies. It will develop and implement technologies that better serve the various client groups of the Province, including online debit and early payment discounts provided these meet stringent cost and technology feasibility criteria.

Financial Advice

The OFA was active in providing financial advice and implementation assistance to the Minister of Finance in 2008–09. It also provided advice to ministries, Crown agencies and other public bodies on corporate and electricity finance policies and initiatives.

Transactions

The OFA reviewed the business case for the Ottawa Congress Centre's $180 million redevelopment project, and assessed and identified contingent liabilities in the agreements related to the financing and construction of the project. The OFA recommended that the Minister grant approval under the Financial Administration Act for the contingent liabilities.

The OFA also managed the Provincial approval process relating to the sale of more than 25 per cent of the outstanding units of Teranet, including overseeing due diligence and facilitating the government's approval for the Borealis acquisition of Teranet.

Advice was provided to the Ministry of Education on possible legislative amendments to school boards' investment powers, as well as to the Ministry of Municipal Affairs and Housing on possible amendments to regulations governing the debt and investment activities of municipalities, and on an asset leveraging initiative to finance the regeneration of deteriorated social housing stock in Ontario.

Ongoing analysis, advice and support is also being provided on the bid for the 2015 Pan Am Games, delivering Ontario's share of financial assistance to the automotive manufacturing industry, and on financing issues relating to the cultural sector.

Projects

The Ministry's framework for financing public bodies mandates the OFA to provide long-term financing to school boards, colleges, hospitals and provincial corporations, boards and commissions. Under this framework, the OFA provided loans to a number of public bodies, including Ontario colleges, school boards and corporations totalling $1.3 billion in 2008–09.

The OFA provided business case analysis and advice to ministries, Crown agencies and other public bodies on a wide variety of policies and projects, including effective leasing policies and structures, asset reviews and value-for-money benchmarks.

The OFA also evaluated forestry sector applications for grants and loan guarantees under the government's Forest Sector Prosperity Fund.

The OFA reviewed and provided advice on applications received under the government's $1.15 billion Next Generation of Jobs Fund program, as well as on the due diligence process relating to the program.

The OFA continued to provide financing advice in respect of a number of Infrastructure Ontario's projects. The OFA also reviewed the Ministry of Transportation's business case for a light rail initiative.

The OFA's objects were expanded to include the authority to act as a limited partner in the Ontario Venture Capital Fund until the Ministry of Research and Innovation set up its own corporation. The Ontario Capital Growth Corporation (OCGC) was established in February 2009, and all rights and responsibilities of the limited partnership were transferred from the OFA to the OCGC. The CEO of the OFA is one of the board members of the OCGC.

The OFA provided analysis and advice to the Minister of Finance and the government to support electricity policies and initiatives, including the *Green Energy and Green Economy Act, 2009*, new supply, and the $250 million loan guarantee program to help support Aboriginal participation in energy projects. The Aboriginal loan guarantee program is intended to facilitate Aboriginal equity participation in renewable generation and transmission projects.

The OFA provides services to OEFC, including continuing to facilitate loan agreements between the OEFC and Ontario Power Generation Inc. (OPG) to refinance existing maturities with OEFC and to finance new electricity supply projects; and the implementation of a directive from the Minister of Finance to OEFC to enter into a contract with OPG. The contract, effective January 1, 2009, provides for the continued reliability and availability of the Lambton and Nanticoke coal-fired generating stations following implementation of OPG's CO_2 emissions reduction strategy.

The OFA assisted in the continued implementation of the Ontario Nuclear Funds Agreement (ONFA). It reviewed OPG's annual budget for eligible expenditures under ONFA for nuclear waste management and the Pickering Units 2 and 3 safe storage project, and the OFA continued to monitor and provide due diligence on the Provincial Guarantee to the Canadian Nuclear Safety Commission (CNSC). The Province provides a guarantee to the CNSC in partial satisfaction of OPG's financial guarantee requirements to the CNSC on its decommissioning and nuclear waste obligations. As at March 31, 2009, the amount of the current direct Provincial guarantee to the CNSC is $760 million, effective January 1, 2008. The OFA continues to monitor the requirement for a direct Provincial Guarantee, working with OPG and the CNSC, as required.

Financial Advice Objectives for 2009–10

In 2009–10, the OFA will continue to provide financial advice and assistance to the Minister of Finance, ministries, Crown agencies and other public bodies on corporate finance and electricity finance policies and initiatives.

Activities will include advising ministries and agencies on cost-effective financing policies and structures, appropriate due diligence on financing aspects of asset management projects, comprehensive advice on structuring and implementing financial transactions and accurate determination of value-for-money benchmarks.

Particular focus will be given to public infrastructure financing initiatives, including projects pertaining to public transit, roads, highways, bridges and borders, pooled capital procurement for the school renewal funding formulae, and asset reviews. The OFA will also provide advice on measures to support the forestry sector and to facilitate cost-effective borrowing by public sector organizations.

The OFA will continue to support the Province's $1.15 billion Next Generation of Jobs Fund, providing analysis and advice on the business case for each application. Financial analysis and advice will be provided to the Minister of Finance on the electricity sector and the impact of related policy initiatives on the Province's finances (including those of the OEFC) and the economy. In addition, ongoing support will be provided for the implementation of the nuclear funds agreement.

The OFA will continue the development of the Aboriginal loan guarantee program by undertaking the program design analysis and the consulations required to launch the program.

As required, the OFA will advise on electricity supply initiatives, including facilitating potential financing to OPG for new supply initiatives.

Summary of Financial Results

The Ontario Financing Authority (OFA) manages the Province's debt and investment of liquid reserves and recovers its costs from the Province for these services. The OFA also provides financial services to Crown agencies and other public bodies and recovers costs on a fee-for-service basis.

The OFA also administers the assets and liabilities of the former Ontario Municipal Improvement Corporation (OMIC). OMIC made loans of $79 million to various school boards due in 2010–2012 and financed the loans through direct borrowing from the Canada Pension Plan. More details are provided in Note 2.

The outstanding balance of the loans to public bodies including accrued interest at March 31, 2009 amounts to $2,933 million, an increase of $969 million from $1,964 million in March 2008 (Note 6). The increase is largely due to the net $907 million additional loans to School Boards, a loan to the Government of Canada - Auto Sector of $83 million, additional loans to Ontario Infrastructure Projects Corporation of $43 million and new loans to Boreal, Cambrian, Georgian, Lambton, Mohawk, Sir Sandford Fleming, and St. Clair Colleges of $19 million. This increase is partially offset by repayments net of new loans from the Ontario Lottery and Gaming Corporation of $41 million, repayments from the Royal Ontario Museum of $32 million, the Ontario Northland Transportation Commission of $7 million and the City of Windsor of $3 million.

The OFA continued to provide investment management services to other public bodies in the aggregate amount of $2.5 billion (2008 – $2.5 billion) (Note 7).

In total, the OFA recovered operating costs from agencies and related parties amounting to $5.8 million, an increase from the $ 4.7 million recovery in 2008 (Note 8). The OFA's income from operations for the year ended March 31, 2009 was $889,000 (2008 – $136,000). The increase is mainly due to the interest rate spread on the loans advanced in the current year.

The OFA has been involved in providing financial advice to the government on various asset optimization initiatives as well as strategic advice on financial and investment policy issues associated with electricity sector reform. OFA staff continues to manage post-sale activities of the Province of Ontario Savings Office (POSO), including legal requirements and liaison with former POSO clients, to ensure that the needs of former POSO account holders are adequately met. Upon the sale of POSO, the Province provided a guarantee for POSO term deposits purchased up to March 31, 2003.

Financial Statements

Responsibility for Financial Reporting

Auditor's Report

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Statement of Net Income and Retained Earnings

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Responsibility for Financial Reporting

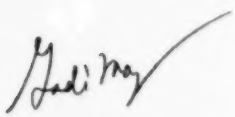
The accompanying Financial Statements of the Ontario Financing Authority have been prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants and are the responsibility of Management. The preparation of the Financial Statements necessarily involves the use of estimates based on Management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods. The Financial Statements have been properly prepared within reasonable limits of materiality and in light of information available up to June 5, 2009.

Management maintains a system of internal controls designed to provide reasonable assurance that the assets are safeguarded and that reliable financial information is available on a timely basis. The system includes formal policies and procedures and an organizational structure that provides for appropriate delegation of authority and segregation of responsibilities. An internal audit function independently evaluates the effectiveness of these internal controls on an ongoing basis and reports its findings to Management and the Audit & Risk Management Committee of the Board of Directors.

The Board of Directors, through the Audit & Risk Management Committee, is responsible for ensuring that Management fulfils its responsibilities for financial reporting and internal controls. The Audit & Risk Management Committee meets periodically with Management, the internal auditors and the external auditor to deal with issues raised by them and to review the financial statements before recommending approval by the Board of Directors.

The Financial Statements have been audited by the Auditor General of Ontario. The Auditor General's responsibility is to express an opinion on whether the Financial Statements are fairly presented in accordance with the recommendations of PSAB of the Canadian Institute of Chartered Accountants. The Auditor's Report, which appears on the following page, outlines the scope of the Auditor's examination and opinion.

On behalf of Management:



Gadi Mayman
Chief Executive Officer
Ontario Financing Authority

Auditor's Report

Office of the Auditor General of Ontario
Bureau du vérificateur général de l'Ontario

Auditor's Report

To the Ontario Financing Authority
and to the Minister of Finance

I have audited the balance sheet of the Ontario Financing Authority as at March 31, 2009, and the statements of net income and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Authority's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at March 31, 2009 and the results of its operations and its cash flows for the year then ended, in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
June 5, 2009

Jim McCarter, CA
Auditor General
Licensed Public Accountant

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Balance Sheet

As at March 31, 2009

(in thousands of dollars)	2009	2008
ASSETS		
Current assets		
Cash	$ 965	$ 221
Interest receivable	2,029	2,029
Due from agencies & related parties (Note 8)	1,491	1,054
Due from the Province of Ontario	1,589	1,215
Total current assets	**6,074**	**4,519**
Fixed assets (Note 3)	2,790	1,309
Loans receivable (Note 2)	79,021	79,021
Total assets	$ **87,885**	$ **84,849**
LIABILITIES AND RETAINED EARNINGS		
Current liabilities		
Accounts payable	$ 1,530	$ 1,138
Due to the Province of Ontario — interest	2,029	2,010
Due to the Province of Ontario — recoveries	1,282	1,009
Total current liabilities	**4,841**	**4,157**
Long-term debt (Note 2)	79,021	79,021
Deferred revenue (Note 4)	2,849	1,386
Retained earnings	1,174	285
Total liabilities and retained earnings	$ **87,885**	$ **84,849**

See accompanying notes to financial statements.

Approved on behalf of the Board:

Peter Wallace
Chair

Gadi Mayman
Chief Executive Officer

Statement of Net Income and Retained Earnings

For the year ended March 31, 2009

(in thousands of dollars)	2009	2008
REVENUE		
Cost recovery from the Province of Ontario (Note 5)	$ 18,105	$ 15,144
Interest revenue	7,605	7,603
Total revenue	**25,710**	**22,747**
EXPENSES		
Salaries, wages and benefits	16,662	15,114
Interest on long-term debt	7,594	7,595
Administrative and general	5,540	3,718
Depreciation (Note 3)	820	912
Sub Total	**30,616**	**27,339**
Less: cost recovery from Agencies and related parties (Note 8)	(5,795)	(4,728)
Total expenses	**24,821**	**22,611**
Net income	889	136
Retained earnings, beginning of year	285	149
Retained earnings, end of year	$ 1,174	$ 285

See accompanying notes to financial statements.

Cash Flow Statement

For the year ended March 31, 2009

(in thousands of dollars)	2009	2008
Cash flows from operating activities		
Net income	$ 889	$ 136
Adjustment for amortization	820	912
Decrease/(increase) in net interest receivable/payable	19	(16)
Decrease/(increase) in due from agencies & related parties	(437)	201
Decrease/(increase) in due from the Province (net of accounts payable)	18	(77)
Increase/(decrease) in recoveries due to the Province	273	(536)
Increase/(decrease) in deferred revenue	1,463	(109)
Cash flows from operating activities	3,045	511
Cash flows from investing activities		
Purchase of capital assets	(2,301)	(726)
Cash flows used in investing activities	(2,301)	(726)
Net increase/(decrease) in cash	744	(215)
Cash, beginning of year	221	436
Cash, end of year	**$ 965**	$ 221

See accompanying notes to financial statements.

Notes to Financial Statements

For the year ended March 31, 2009

BACKGROUND

The Ontario Financing Authority (the "OFA") was established as an agency of the Crown, on November 15, 1993, by the *Capital Investment Plan Act, 1993* (the "Act"). In accordance with the Act, the OFA:

- conducts borrowing, investment and financial risk management for the Province of Ontario;
- manages the Provincial debt;
- provides financial and centralized cash management services for the Province;
- advises ministries, Crown agencies and other public bodies on financial policies and projects;
- assists Crown agencies and other public bodies to borrow and invest money;
- acts at the direction of the Province in lending to certain public bodies;
- invests on behalf of some public bodies.

In addition, the OFA's objects include:

- providing such other financial services as are considered advantageous to the Province or any public body; and
- any additional objects as directed by the Lieutenant Governor in Council.

The OFA is a corporation established under the laws of Ontario. The OFA is exempt from federal and provincial income taxes under paragraph 149(1)(d) of the *Income Tax Act* (Canada).

1. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: Because the OFA is a government organization, these financial statements are prepared in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants.

Cash and Cash Equivalents: Cash and cash equivalents includes cash on deposit and highly liquid investments with maturities of less than three months. They are recorded at cost, which approximates current market value.

Fixed assets: Fixed assets are stated at cost. Depreciation is provided using the straight-line method over the estimated useful life of the asset, as listed below.

Furniture and equipment	5 years
Computer hardware	3 years
Leasehold improvements	Term of lease plus one renewal period

Funding received from the Province and the Agencies for the acquisition of fixed assets is recorded as deferred revenue and amortized to cost recovery on the same basis as the fixed assets.

Measurement uncertainty: The preparation of these financial statements requires management to make estimates that are based on the best information available at the time of preparation of the financial statements and will be updated annually to reflect new information as it becomes available.

2. ONTARIO MUNICIPAL IMPROVEMENT CORPORATION (OMIC)

In accordance with the *Capital Investment Plan Act, 1993*, OMIC's assets and liabilities were transferred to the OFA on November 15, 1993. OMIC received loans from the Canada Pension Plan (CPP) which were used to make loans to municipalities and school boards under similar terms as its debt.

The maturities and average interest rates on both the outstanding loans receivable and outstanding debt are set out below:

(in thousands of dollars)

Maturing in:	Principal Maturing	Average Interest Rate (%)
2010	$ 5,156	10.86
2011	29,630	9.97
2012	44,235	9.22
Total	$ **79,021**	**9.61**

3. FIXED ASSETS

The net book value (NBV) of fixed assets is as follows:

(in thousands of dollars)

	Cost	Accumulated Amortization	NBV March 31, 2009	NBV March 31, 2008
Furniture and equipment	$ 928	$ 199	$ 729	$ 247
Computer hardware	9,811	8,879	932	842
Leasehold improvements	1,617	488	1,129	220
Total	$ **12,356**	$ **9,566**	$ **2,790**	$ **1,309**

4. DEFERRED REVENUE

Deferred revenue represents the unamortized portion of the cost recovered from the Province and the Agencies for the acquisition of fixed assets and the amount of lease inducement to be amortized to operations over four years.

(in thousands of dollars)

	Fixed Assets		Lease Inducement	Total
	Province	Agencies		
Balance, beginning of period	$ 1,301	$ 8	$ 77	$ 1,386
Additions	2,301	—	—	2,301
Amortization	(812)	(8)	(18)	(838)
Balance, end of period	**$ 2,790**	$ —	**$ 59**	**$ 2,849**

5. DEBT MANAGEMENT FOR THE PROVINCE

The OFA manages debt and investment on behalf of the Province, including the joint management of funds owned by Ontario Power Generation Inc. (OPG) under the *Ontario Nuclear Funds Agreement*. The Province, OPG and certain OPG subsidiaries entered into the agreement in March 2002 to set aside funds necessary to dispose of nuclear waste and used fuel and to decommission nuclear power stations. The agreement came into force on July 24, 2003.

Cost recovery from the Province for all debt management and investment activities for the year ended March 31, 2009 was $18.1 million (2008 - $15.1 million). The increase of $3 million is due to greater demands on the OFA resulting in increased staffing and support costs (legal fees and IT support) in the Capital Markets Division for higher borrowing requirements and loans to public bodies, and increased staffing and accommodation costs for the Corporate and Electricity Finance Division, including the costs of advisory services related to asset management activities.

6. TRANSACTIONS WITH PUBLIC BODIES

The OFA provides financing to various public bodies on direction from the Province. As the OFA is directed by the Province to make these loans in furtherance of stated Provincial initiatives, and these loans are included in the Province's consolidated financial statements, these transactions are not reflected in these financial statements. Funds for these loans are advanced to the OFA by the Province under credit facilities aggregating $5.6 billion expiring from 2027 to 2033. Principal repayments received from public bodies by the OFA are forwarded to the Province. Effective December 19, 2007, the interest rates charged on new loans to public bodies will be slightly higher than the rate charged on the advances from the Province to fund the loans ("the spread"). The OFA will generally retain the spread in order to recover the administrative costs of managing these loans. In some cases the rate charged to the borrower will be similar to the rate that would be charged on the loan by a commercial lender.

Funds are generally advanced by the OFA to public bodies under interim financing arrangements consisting of a number of promissory notes for terms not exceeding one year. The promissory notes are later converted to term debt and repayment terms are finalized. As of March 31, 2009, the amounts receivable by the OFA on behalf of the Province are not reflected in these financial statements and represent debentures, short term loans and lines of credit.

The following represents amounts receivable by the OFA on behalf of the Province, including accrued interest. With the exception of the interest rate spread retained by the OFA, these amounts are in turn owed to the Province by the OFA. These are related party transactions, with the exception of those with the Corporation of the City of Windsor and the Government of Canada – Auto Sector.

(in thousands of dollars)

	March 31, 2009	March 31, 2008
Boreal College of Applied Arts and Technology	$ 1,007	$ —
Cambrian College of Applied Arts and Technology	7,657	—
Centennial Centre of Science and Technology	4,007	4,508
Corporation of the City of Windsor	19,516	22,961
Government of Canada - Auto Sector	83,356	—
Georgian College of Applied Arts and Technology	5,574	3,630
Lambton College of Applied Arts and Technology	3,961	—
Mohawk College of Applied Arts and Technology	4,452	2,149
Ontario Infrastructure Projects Corporation	105,116	62,217
Ontario Lottery and Gaming Corporation	256,657	297,188
Ontario Northland Transportation Commission	33,919	41,132
Royal Ontario Museum	57,020	88,936
School Boards	2,348,175	1,441,407
Sir Sandford Fleming College of Applied Arts and Technology	1,743	—
St. Clair College of Applied Arts and Technology	462	—
Total	**$ 2,932,622**	**$ 1,964,128**

The Boreal College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, borrowed $1 million against a maximum $9.5 million construction period non-revolving loan facility for the construction of a campus project. The loan bears interest at 0.6 per cent and is scheduled to be repaid no later than December 30, 2009.

The Cambrian College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, has borrowed a total of $8 million comprised of three loans as described below. The first loan for $6 million against a maximum $11 million construction period non-revolving loan facility is funding a student residence project. The loan bears interest at 0.95 per cent and is scheduled to be repaid no later than June 15, 2009. The second loan for $1.6 million against a maximum $3 million construction period non-revolving loan facility is funding a Chiller System project. The loan bears interest at 0.6 per cent and is scheduled to be repaid no later than October 1, 2009. The third loan for $0.4 million is funding a parking lot project. This loan will mature in 2018 and bears interest at 4.814 per cent.

The Centennial Centre of Science and Technology is a Crown agency of the Province under the *Centennial Centre of Science and Technology Act, 1990*. The Centre originally borrowed $10 million for the construction of its Agents of Change project and has made principal repayments reducing the balance at March 31, 2009 to $4 million (2008 - $4.5 million). The loan bears interest at 4.346 per cent and matures in March 2017.

The Corporation of the City of Windsor is a municipality within the meaning of the *Municipal Act*. The financing provided is for the acquisition, design and construction of the Windsor Justice Facility, consisting of a provincial division courthouse and city police headquarters. This is a 20 year debenture bearing interest at 6.41 per cent and maturing in March 2021. The outstanding balance is $19.5 million (2008 - $23.0 million).

The Georgian College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, has borrowed a total of $6 million (2008 - $4 million) to finance multiple projects. The first loan for $4 million is a ten year loan at 3.954 per cent maturing in March, 2018. The second loan for $2 million is a ten year loan at 3.715 per cent maturing in March, 2019.

The Government of Canada borrowed $83 million to assist in providing funding to the Canadian auto sector. The loan bears a floating interest rate of CDOR plus 3% to a minimum of 5% to be re-set quarterly and is scheduled to be repaid by March 31, 2012. Subsequent to the year-end, further loans in excess of $2 billion were provided.

The Lambton College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, borrowed $4 million to finance the expansion of a student residence. This 25 year loan bears interest at 5.224 per cent and will mature in July, 2033.

The Mohawk College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, has borrowed a total of $4 million (2008, $2.1 million) to finance several projects including the purchase of computer equipment and an energy saving capital program. The first loan for $2 million bears interest at 4.8 per cent and matures in September, 2011. The second loan for $1.6 million bears interest at 1.9405 per cent and matures in March, 2012. The college also borrowed $0.4 million against a maximum $7 million construction period non-revolving loan facility. This loan bears interest at 0.75 per cent and is scheduled to be repaid no later than August 31, 2011.

The Ontario Infrastructure Projects Corporation (OIPC) has been provided a 10 year Revolving Credit Facility to a maximum amount of $200 million. OIPC has drawn $105 million (2008 - $62 million) bearing interest at rates ranging from 2.421 to 5.02 per cent.

The Ontario Lottery and Gaming Corporation (OLG) is a Crown agency of the Province under the *Ontario Lottery and Gaming Corporation Act, 1999*. The outstanding debt is composed of two term loans. The first was originally issued in the amount of $794 million to purchase the casino complex in Niagara Falls. This five year loan bears interest at 4.3821 per cent and matures in June 2009. The second was originally issued to consolidate $226 million construction loans for the renovation and expansion of Casino Windsor and for the construction of an Energy Centre. This is a five year loan bearing interest at 3.2242 per cent maturing in November 2013. The OLG has made principal repayments reducing the balance at March 31, 2009 to $257 million (2008 - $297 million).

The Ontario Northland Transportation Commission (ONTC) is a Crown agency of the Province under the *Ontario Northland Transportation Commission Act, 1990*. The ONTC total borrowing is comprised of debentures and an operating line of credit aggregating to $34 million (2008 - $41 million). The debentures of $22 million mature from 2010 to 2031 and bear interest ranging from 4.717 to 6.37 per cent. The operating line of credit of $12 million bears interest ranging from 0.4 to 0.88 per cent.

The Royal Ontario Museum (ROM) has borrowed $57 million (2008, $89 million) comprised of $40 million at fixed rates ranging from 5.04 to 5.12 per cent and $17 million at a floating rate currently at 0.95 per cent. All outstanding loans are scheduled to be repaid by March 2016.

School boards have been provided loans under various programs beginning in 2006. During the year ended March 31, 2009, school boards received additional loans and made two semi-annual blended payments of principal and interest, leaving the total outstanding amount at $2,348 million (2008 - $1,441 million). These loans bear interest ranging from 4.56 to 5.347 per cent and mature from 2031 to 2034.

The Sir Sandford Fleming College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, borrowed $2 million to refinance the construction of a student residence. The loan bears interest at 4.514 per cent and matures in 2015.

The St. Clair College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, originally borrowed $1 million for construction of a student centre. The College has made principal repayments reducing the balance to $0.4 million at March 31, 2009. The loan bears interest at 4.328 per cent and matures in 2013.

Committed Credit Facilities:

At the direction of the Province, the OFA has committed to finance a number of public bodies for which funds have not yet been advanced. The details are as follows:

The Canadore College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, was provided a non-revolving loan credit facility to finance the renovation of a Student Centre to a maximum of $9 million during the construction period.

The Deposit Insurance Corporation of Ontario (DICO) was provided a maximum $250 million revolving credit facility to ensure DICO's capacity to address systemic difficulties in the credit union system or the failure of large institutions that require resources above those in the Deposit Insurance Reserve Fund which is currently valued at approximately $97 million.

Fanshawe College of Applied Arts and Technology, a Crown Agency established under the *Ontario Colleges of Applied Arts and Technology Act, 2002*, was provided a maximum $23 million construction period non-revolving loan facility to finance the construction of a student residence.

The Ontario Power Authority was provided a maximum $975 million credit facility to fund the Regulated Price Plan variance account. The credit facility expires on December 31, 2010.

7. INVESTMENT AND DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides services to agencies, related parties and other public bodies including investment management services as listed below on a cost recovery basis amounting to $153,000 for the year ended March 31, 2009 (March 2008 - $110,000). Funds managed on behalf of these other public bodies amounted to $2.5 billion at March 31, 2009 (March 2008 - $2.5 billion).

Algonquin Forestry Authority
Deposit Insurance Corporation of Ontario
Northern Ontario Heritage Fund Corporation
Ontario Capital Growth Corporation
Ontario Immigrant Investor Corporation
Ontario Infrastructure Projects Corporation
Ontario Realty Corporation
Ontario Securities Commission
Ontario Trillium Foundation
Pension Benefits Guarantee Fund

8. DEBT MANAGEMENT FOR AGENCIES AND RELATED PARTIES

The OFA provides debt management services on a cost recovery basis to agencies as set out below:

Agencies:

Ontario Electricity Financial Corporation (OEFC)
OEFC is responsible for servicing and retiring the debt and certain other liabilities of the former Ontario Hydro. The OFA provides financial services and advice to OEFC and manages its debt portfolio amounting to approximately $27.6 billion.

Ontario Infrastructure Projects Corporation (OIPC)
The OFA manages the debt of OIPC of $2.8 billion including loans from the Province, a provincial agency and third parties.

Related parties:

As explained in Note 6, the OFA recovers the cost of administration of loans to related parties as an interest rate spread. The amount of this spread retained at OFA for the year ended March 31, 2009 is $877,000.

Total costs recovered and amounts outstanding at March 31, 2009 from OEFC, OIPC and the related parties are set out below:

(in thousands of dollars)

	March 31, 2009	March 31, 2008
Costs Recovered:		
Agencies:		
OEFC	$ 3,520	$ 3,309
OIPC	1,245	1,181
Other	153	110
Related parties	877	128
Total	$ 5,795	$ 4,728
Receivables:		
Agencies:		
OEFC	$ 879	$ 727
OIPC	311	256
Other	32	26
Related parties	269	45
Total	$ 1,491	$ 1,054

9. FUTURE EMPLOYEE BENEFITS

The OFA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan established by the Province of Ontario. The Ministry of Government Services (MGS) is responsible for funding the employer's contribution to the Pension Fund and accordingly, the OFA has no additional liability for these future costs. In addition, the cost of post-retirement, non-pension benefits is paid by MGS and is not reported in these financial statements.

10. CONTINGENCIES AND COMMITMENTS

At March 31, 2009, there were no claims under which the OFA would be financially liable. The Province continues to guarantee the deposits issued by the Province of Ontario Savings Office prior to 2003.

11. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform with the financial statement presentation adopted for 2008 – 09 fiscal year.

Corporate Governance

Corporate Governance

Financial Reporting Requirements

Board of Directors

Corporate Governance

The OFA is an agent of the Crown and is classified as an operational enterprise agency.

Corporate governance involves processes that permit the effective supervision and management of the OFA's activities by senior management, the Board of Directors and the Minister of Finance. It includes identifying individuals and groups responsible for activities and specifying their roles. The OFA's governance framework is fully described in its corporate governance policy.

Accountability and Responsibilities

The OFA's accountability structure flows from its governing statute, the *Capital Investment Plan Act, 1993* (the Act). The Minister of Finance is the minister responsible for the administration of the Act with respect to the OFA. The Act, together with a Memorandum of Understanding (MOU) between the OFA and the Minister of Finance and directives issued by Management Board of Cabinet (MBC) relating to Crown agencies, form a framework under which the OFA is governed.

Each year, the Minister is required to submit the Annual Report to the Lieutenant Governor in Council and then table the report in the Legislature. In addition, the Minister reviews and approves the annual business plan and recommends the plan for approval to MBC every three years or as otherwise required by government directives. The Minister also maintains communications with the OFA through the Chair of the Board of Directors regarding government policies and expectations relevant to the OFA.

The Chair is accountable to the Minister of Finance for the performance of the OFA in fulfilling its mandate. The Act requires that the Deputy Minister of Finance be the Chair of the OFA. The Chair is responsible for providing advice and information to the Minister with regard to the operation and affairs of the OFA. In addition, the Chair provides leadership and direction to the Board of Directors and the CEO and ensures that the OFA complies with governmental policies and directives.

The Board of Directors is appointed by the Lieutenant Governor in Council and reports to the Minister through the Chair. In accordance with the OFA's MOU with the Minister of Finance, the OFA Board performs a supervisory role. It oversees the management of the OFA and helps to ensure that the OFA's mandate, as determined by the Province, is implemented effectively. The Board of Directors meets at least quarterly and receives regular reports from the CEO and OFA staff concerning the operations of the OFA and its compliance with applicable laws and policies. Standards of conduct for Board members are set out in a Board approved Code of Conduct.

There are also two committees of the Board to assist it in supervising the management of the OFA. The Audit & Risk Management Committee approves an annual internal audit plan and liaises with the OFA's internal auditors and the Auditor General of Ontario regarding financial reporting and controls. It also reviews financial policies and financial statements and recommends them to the Board. Another function of the Audit & Risk Management Committee is the review of the OFA's major risks and mitigation strategies. The Human Resources Committee was created in 2006–07 to assist the Board in ensuring appropriate measures are in place to recruit, develop and retain qualified staff in critical areas.

The CEO is appointed by the Lieutenant Governor in Council on the recommendation of the Minister. The CEO is accountable to the Chair for the day-to-day management of the OFA and for the performance of any other functions assigned by the Board of Directors. The CEO is responsible for managing the ongoing activities of the OFA, including the supervision of staff. In addition, the CEO ensures that the OFA's policies and procedures remain relevant and effective.

The OFA's employees are appointed pursuant to the *Public Service of Ontario Act, 2006*.

Financial Reporting Requirements

The OFA prepares annual financial statements in accordance with the recommendations of the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. They are reviewed and recommended by the Audit & Risk Management Committee and approved by the Board of Directors. Unaudited financial statements are prepared quarterly and presented to the Audit & Risk Management Committee and the Board. The annual financial statements are audited by the Auditor General who expresses an opinion on whether they present the financial results fairly and in accordance with Canadian generally accepted accounting principles. The findings are reviewed by the Audit & Risk Management Committee and the Board of Directors. These audited financial statements are tabled in the Ontario Legislature as part of the Annual Report and are included as a schedule to the Public Accounts of the Province.

Internal Controls

Management is responsible for establishing and maintaining internal controls to provide reasonable assurance regarding the reliability of financial reporting, to safeguard the OFA's assets and to control its liabilities.

In meeting its responsibility for the reliability and timeliness of financial information, the OFA uses a comprehensive system of internal controls, including organizational and procedural controls. The system of internal controls includes:

- comprehensive business planning
- written communication of policies and procedures governing corporate conduct and risk management
- segregation of duties
- maintenance and retention of detailed records
- responsible delegation of authority and personal accountability
- careful selection and training of personnel
- regularly updated accounting policies.

As part of its annual business plan, the OFA conducts a risk assessment of corporate-wide risks and develops appropriate mitigation strategies.

The Ontario Internal Audit Division of the Ministry of Finance develops an annual internal audit plan based on its risk assessment and input from the OFA Audit & Risk Management Committee and OFA management. The internal audit plan is approved by the OFA Audit & Risk Management Committee. The Internal Audit Division reports to the OFA Audit & Risk Management Committee on the results of their audit work in the OFA. In 2008–09, the Internal Audit Division completed 528 audit days at the OFA, and 271 days at the OEFC for functions executed by OFA staff on behalf of the OEFC.

Board of Directors

The following individuals were members of the Board of Directors in 2007–08:

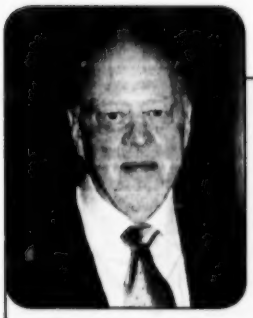
Peter Wallace [Appointed 2008]
Chair, OFA Board of Directors
Deputy Minister of Finance and Secretary of Treasury Board.

Peter Wallace was appointed Deputy Minister of Finance and Secretary to Treasury Board effective September 15, 2008.

Before that, Peter was Deputy Minister of Energy, starting in January, 2007. Earlier, as Deputy Minister and Associate Secretary of the Cabinet, Policy, he played a key role in implementing government policy and legislation.

From February 2001 to February 2004, Peter served as Assistant Deputy Minister of Natural Resource Management with the Ministry of Natural Resources. Prior positions include Assistant Deputy Minister, Policy and Strategic Planning, Cabinet Office; Assistant Deputy Minister, Program Management and Estimates Division, Management Board Secretariat; and Director, Expenditure Management and Reporting, Ministry of Finance.

Peter began his public service career in 1981 after completing a BA (Honours) in Political Economy and a Master of Public Administration from the University of Toronto.



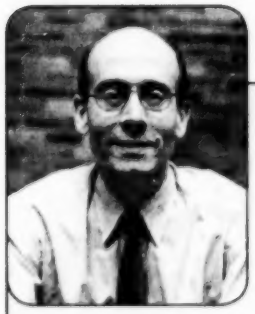
Robert Brown, FCA [Appointed 2005]
Vice Chair, OFA Board of Directors.

Robert is a Past Chair and Chief Executive Officer of Price Waterhouse (now PricewaterhouseCoopers).

He has served as Chair of the Canadian Tax Foundation and the Canadian Institute of Chartered Accountants. Robert has an extensive background in tax, fiscal and governance issues. He was a member of the Toronto Stock Exchange Committee on Corporate Governance. Robert also served a term as the Clifford Clark Visiting Economist to the Department of Finance, providing advice to the Department and the Minister on fiscal, tax and economic policy issues. More recently, Robert served as Co-Chair of a federal committee to review tax assistance for the disabled. He is a director of Canadian Apartment Properties Real Estate Investment Trust and has served as a director of other public Canadian companies.

Robert has served in a number of volunteer positions and is a Past Chair of the C.D. Howe Institute and a frequent speaker and writer on economic and tax policy issues. He is a Director of Canadian Policy Research Networks and a Past Director of the Institute of Corporate Directors.

Robert is a graduate of the University of Toronto (BCom) and of the University of Chicago (M.A., Economics).



Gadi Mayman [Appointed 2003]
Chief Executive Officer of the Ontario Financing Authority.

Gadi is responsible for the Province of Ontario's medium and long-term borrowing strategy, banking relationships and policies related to debt management. He advises the Province on the use of the Provincial credit and relations with capital markets and investors. Gadi is also Chief Executive Officer of the Ontario Electricity Financial Corporation (OEFC), responsible for its day-to-day operations.

Gadi is a director on the board of Ontario Infrastructure Projects Corporation (OIPC) and the board of the newly established Ontario Capital Growth Corporation (OCGC). He is also Co-Chair of the Joint Nuclear Funds Investment Committee, a joint OFA and Ontario Power Generation Inc. (OPG) Committee.

Prior to joining the Ontario Ministry of Finance in 1991, he worked as a treasury officer at the Export Development Corporation (EDC) in Ottawa for three years and in the International Division of the Toronto Dominion Bank for five years.

Gadi received a B.Sc. in Industrial Engineering from the University of Toronto in 1981, and an M.B.A. from the University of Western Ontario in 1988.

Lorraine Bell, C.A. [Appointed 2005]

Committees: Audit & Risk Management Committee, Vice-Chair
Human Resources Committee, Member

Lorraine has over 25 years of financial experience, including over 13 years of experience in the derivatives markets. She is currently a Trustee, Chair of the Audit Committee and member of the Governance Committee for Brookfield Real Estate Services Fund. Lorraine was formerly a Vice-President and Director with General Re Financial Products Canada (GRFP). Prior to joining GRFP, she worked as a financial consultant, and was a Vice President at a number of corporations including Prudential Global Funding and Citibank Canada. Before joining Citibank Canada, Lorraine was with Touche Ross & Company (now Deloitte & Touche) as a member of the audit group and obtained her CA designation at that time.

She is an active volunteer and past Board Member of a number of charitable organizations in Ontario. Lorraine is a member of the Institute of Corporate Directors.

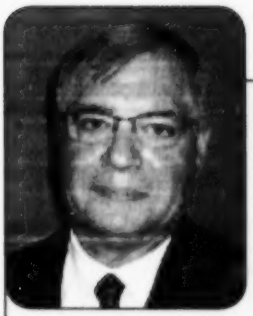
Mario Ferrara [Appointed 2005]

Committee: Audit & Risk Management Committee, Chair

Before his appointment to the OFA Board of Directors, Mario was Managing Director and Head of the Government Finance Group at Scotia Capital in Toronto. The Group provided a wide range of financial advice and executed financing transactions for the firm's government and government-related clients.

Mario's investment management experience includes senior positions in the private and public sector. As Vice-President, Investments at E-L Financial Corporation, he was head of the investment group with direct responsibility for managing the fixed-income portfolios of the company's life and casualty insurance subsidiaries. Prior to joining E-L Financial, Mario spent 12 years at Ontario Hydro in a number of finance-related positions including portfolio manager of the fixed-income assets of the Ontario Hydro Pension Plan. Later at Ontario Hydro, he was Assistant Treasurer–Corporate with responsibility for management, development and execution of funding plans, investor relations and corporate insurance.

Mario holds a BCom and MBA from McMaster University.



Richard J. Kostoff [Appointed 2007]

Committee: Human Resources Committee, Member

Richard recently retired as Deputy Chair of TD Securities with 35 years of experience in the investment industry. In that role, he was responsible for senior capital markets coverage related to a wide variety of government, infrastructure and corporate financing assignments.

Over the course of his career, Richard's senior management responsibilities have included fixed income sales and trading, derivative marketing and equity and debt capital markets origination. In addition to TD Securities, Richard has held senior positions at RBC Dominion Securities (Director), Gordon Capital (Partner), Pemberton Securities (Senior Vice President), and Midland Doherty (Vice President). He started his career at Canada Life Assurance Company as a Junior Fixed Income Trader in 1972.

Richard is currently the principal of Templar Investments Limited, a consulting and advisory firm located in Toronto.

Richard graduated from York University in 1972 (BA Economics).

Patrick Lavelle [Appointed 2005]

Committees: Human Resources Committee, Chair
Audit & Risk Management Committee, Member

Patrick is Chairman and Chief Executive Officer of his own strategic management consulting firm established in 1991. Until March of 2002, Patrick was Chairman and CEO of Unique Broadband Systems Inc. He is a Past Chairman of Export Development Canada and also served a 3-year term as Chairman of the Board of the Business Development Bank of Canada. Prior to establishing his own firm, Patrick was Vice President, Corporate Development, Magna International Inc.

In 1985, Patrick was appointed Deputy Minister of Industry Trade and Technology for the Province of Ontario. At the same time, he was the First Secretary of the Premier's Council which produced an economic blueprint for the Ontario economy. Patrick also served as an Executive Assistant to the Federal Minister of Labour and Health and Welfare, and Agent General for the Government of Ontario in Paris, France. Patrick is the past President and CEO of the Automotive Parts Manufacturers' Association of Canada.

Patrick is a director of a number of public and private Canadian and U.S. companies. He is a member of the Advisory Board of the International MBA program at York University.

Carol Layton [Appointed 2003]

Committees: Audit Committee, Member
Human Resources Committee, Member

Carol Layton is the Deputy Minister of Revenue.

Carol was previously Ontario's Deputy Minister of Public Infrastructure Renewal, Deputy Minister of Results Delivery within Cabinet Office, Deputy Minister of Citizenship and Immigration as well as Deputy Minister Responsible for Women's Issues and Seniors. She has held various senior positions in the Management Board Secretariat and the Ministries of Health and Long-Term Care, Finance, the Attorney General and Treasury and Economics. Carol also served as the 2007 President of the Institute of Public Administration of Canada (IPAC).

Jack M. Mintz [Appointed 2003]

Jack Mintz is Palmer Chair in Public Policy at the University of Calgary. Prior to his appointment to the OFA Board of Directors, Jack was President and Chief Executive Officer, C.D. Howe Institute.

Jack also serves on various corporate and not-for-profit boards. He has published more than 180 books and articles in the fields of public economics and fiscal federalism. He serves on the Board of Governors of the National Tax Association in Washington, D.C., is an Associate Editor of *Contemporary Accounting Research and International Tax and Public Finance* and is a research fellow of CESifo, Munich, Germany.

Jack has served as a visiting economist at the Department of Finance, Ottawa: Chair of the federal government's Technical Committee on Business Taxation in 1996 and 1997; Associate Dean (Academic) of the Faculty of Management, University of Toronto, 1993–95; a special advisor to the Deputy Minister, Tax Policy Branch, Department of Finance, Ottawa, 1984–86; and Director of the John Deutsch Institute, Queen's University, 1987–89.

Dagmar Teubner [Appointed 2007]

Committee: Audit & Risk Management Committee, Member

Dagmar is a lawyer and chartered accountant. She has extensive tax law experience having practiced with a large accounting firm.

Dagmar has been an independent consultant since 1988. She works extensively with the private sector, various levels of government and foreign clients to solve real-estate based problems and coordinate development projects.

Dagmar has a Bachelor of Science degree from the University of Toronto and has authored and co-authored numerous publications on domestic and international tax law. She lectures extensively on tax matters at Canadian universities.

Dagmar is actively involved in various charitable institutions.

Risk Management Policies and Procedures

OFA risk management policies and procedures provide for the management of risk exposures created by capital market activities. Current policies and procedures address market, credit and operational risk exposures as they pertain to the Province's debt and derivatives portfolios and capital markets transactions.

The policies were developed following the guidelines and directives of regulatory bodies, such as the Office of the Superintendent of Financial Institutions of Canada, the Bank for International Settlements and in consultation with Canadian bank representatives on their risk management practices.

The Board approves risk management policies and monitors the performance of capital market activities.

Market Risk Policy

Market risk is the risk of financial loss attributable to changes in interest rates and foreign exchange rates. This policy provides a framework for borrowing activities and integrates several aspects dealing with the management of market risk. The policy includes several limits:

- Foreign Exchange Limit: unhedged foreign currency exposure is limited to 5 per cent of debt issued for provincial purposes. Unhedged foreign exchange exposures are limited to Group of Seven currencies and the Swiss franc.

- Net Interest Rate Resetting Limit: the interest rate resetting risk exposure is the sum of maturities and floating-rate debt (net of liquid reserves) over the next 12 months and is limited to a maximum of 35 per cent of debt issued for provincial purposes.

- Interest on Debt (IOD) Loss Limit: the total amount of financial losses resulting from market risk cannot exceed 3 per cent of budgeted IOD for a fiscal year. In addition, the CEO establishes a trigger level to ensure that losses from market activities will not reach the debt cost loss limit. The trigger level is included in the Annual Financing, Debt and Electricity Management Plan.

The OFA identifies and quantifies current and potential exposures to market risk and ensures that risk exposures and losses remain within approved exposure and loss limits. Exposure to market risk is measured and reported daily.

Credit and Related Legal Risks Policy

Credit risk is the risk of loss in which a counterparty does not meet or defaults on its obligations. Credit risk arises when the OFA undertakes financial and derivative transactions. The minimum credit rating of a counterparty for a new swap transaction is typically AA–, and R1-mid (and A-1 or P-1) for money market investments. The resulting exposure is capped at mark-to-market limits depending on the counterparty's credit rating and capital base. Concentration limits are also in place to limit exposure. Credit exposure is measured and reported daily.

Policy on the Use of Derivatives and Other Financial Instruments

Use of derivatives and other financial instruments is restricted to those which the OFA can price and whose risk exposures can be measured by the OFA. Derivatives are used to manage exposures arising from existing and planned debt issues in a sound and cost-effective manner consistent with the Annual Financing, Debt and Electricity Management Plan. Risks arising from the use of derivatives are monitored and managed prudently.

Risk Management Reporting Policy

At its regular quarterly meetings, the Board of Directors is kept informed of the OFA's activities:

- The CEO provides the Board of Directors with a progress report on the implementation of the Annual Financing, Debt and Electricity Management Plan, staffing and other administrative and operational matters. The CEO also reports on the OFA's compliance with applicable government directives.

- The Director of Risk Control reports on program exposures and performance as well as exceptions to policies.

In addition, OFA management is kept informed of OFA's risk exposures and positions on a daily basis.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or external events. Each division manages operational risk through reviews and improvements of work processes, documented policies and procedures, data processing systems, contingency plans and staff training.

The OFA maintains a Business Continuity Plan (which covers the OEFC's operations) that is regularly updated to facilitate the continuation of essential operational functions with a minimum of disruption in the event of an emergency.

Appendices

Ontario's Credit Ratings

Additional Sources of Information

Ontario's Credit Ratings

A credit rating is a current assessment of the creditworthiness of a borrower with respect to a specified obligation. It indicates the capacity and willingness of a borrower to pay interest and principal in a timely manner.

Long-Term Ratings

Long-term ratings are assigned a letter grade ranging from investment grade, to speculative grade, to highly speculative or default. Ratings within each category may include a "plus" or "minus" (or a high or low) to indicate the relative strength of rating within that category. The current long-term ratings of the Province of Ontario are as follows:

- Moody's Investors Service — Aa1
- Standard & Poor's — AA (N)
- DBRS — AA (N)

Short-Term Ratings

Short-term ratings are for debt maturities of less than one year. Ratings are graded into several categories, ranging from the highest-quality obligations to default. The current short-term ratings of the Province of Ontario are as follows:

- Moody's Investors Service — P-1
- Standard & Poor's — A-1+
- DBRS — R-1 (high)

Additional Sources of Information

www.ofina.on.ca

The website provides information on Ontario's borrowing program and debt and contains publications from the Ontario Financing Authority.

Ontario Budget

The Borrowing and Debt Management chapter discusses the Province's borrowing and debt management activities for the fiscal year ended and outlines the outlook for the upcoming fiscal year.

Quarterly Finances – OFA Bulletin

The OFA Bulletin provides quarterly updates of the government's annual budget forecast. The full set of quarterly finances information is also available on the Ministry of Finance website, www.fin.gov.on.ca.

Form 18-k

This is the Province's annual report to the U.S. Securities and Exchange Commission (SEC).

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